

## 1996 Has Been a Year of Federal Program Reductions, Disruptions, and Reforms

*Most rural areas have experienced some reductions or disruptions in Federal assistance during fiscal year 1996. Meanwhile, efforts to overhaul major Federal programs and regulations have begun and promise more significant changes in the future.*

This issue of *Rural Conditions and Trends* describes Federal program and policy changes and their significance for rural areas. Our focus is on programs traditionally associated with rural development, such as assistance for infrastructure, businesses, and housing. However, we also look at many other programs of importance to rural communities and economies, like the environment and natural resources, agriculture, defense, social security, health, and education and training programs. We also discuss major tax and regulatory changes. The result is a fairly comprehensive review of how changes in Federal Government activities play out over the rural landscape.

Originally, this issue of *RCaT* was to examine only those changes that were adopted in legislation or regulations in fiscal year 1995 and that would take effect in fiscal year 1996. However, 1995 proved to be an unusual year in that the fate of many programs was delayed for over 6 months due to the inability of Congress and the administration to reconcile the fiscal year 1996 budget until the end of April 1996. Consequently, this issue of *RCaT* covers changes that were adopted in 1995 plus some changes adopted in early 1996.

We restricted our analysis to the largest and most important programs for rural development, focusing, where possible, on programs expected to change significantly in 1995-96. In most cases, the focus is on changes that have already been enacted by Congress or initiated by the administration. Like other issues of *Rural Conditions and Trends*, this issue is descriptive in nature. The analysis describes program activities, objectives, geographic allocations, and changes in program budgets and characteristics. Where relevant, the authors (all researchers in Economic Research Service's (ERS) Rural Economy Division) have added information about rural conditions to provide a context for understanding the roles different programs play in rural areas.

To indicate the rural places affected by Federal policies, we used the Census Bureau's 1994 Consolidated Federal Funds Reports data (also known as the Federal Funds data) to map the geographic distribution of selected Federal programs. These data vary among programs: some are accurate to the county level while others are only accurate to the State level. The limitations of the Federal Funds data are discussed in the appendix. We developed State typologies (see appendix) to compare program funding by type of State. The U.S. Department of Agriculture's (USDA) ERS nonmetro county typologies were used to compare program funding levels for different types of counties (see appendix). Where the Federal Funds data are inappropriate or misleading, other data sources are used.

### **Major Themes Include Budget Cuts, Shutdowns, Farm Legislation, Reform Proposals**

Cutting the Federal deficit was an early priority of both the 104th Congress and the Clinton administration. The rescissions legislation enacted in July 1995 cut \$16 billion in unobligated funds in fiscal year 1995 while providing an additional \$7 billion in emergency disaster assistance, resulting in a net \$9-billion reduction in Federal spending. These spending cuts were not evenly distributed but fell heavily on transportation (airports), housing (public housing), and several other functions.

As fiscal year 1995 ended, disagreement over how to reduce the deficit left many Federal agencies without regular appropriations for over 6 months (from October 1995 to April 1996) in fiscal year 1996. Many programs were temporarily shut down, or operated much, if not all, of the fiscal year on temporary and reduced funding. Temporary shutdowns caused disruptions in services that in some cases had significant adverse effects, such as in places that depend on national parks for tourism. Similar disruptions in other activities were less visible but more widespread, such as short-term cutbacks in environ-

mental enforcement and school planning difficulties associated with uncertainties about Federal aid for the 1996-97 school year.

Nine cabinet-level departments were affected: Education, Housing and Urban Development (HUD), Health and Human Services (HHS), Commerce, State, Interior, Veterans Affairs, Justice, and Labor. These and many other agencies operated under temporary continuing resolutions until the end of April 1996, when the Omnibus Spending Act of 1996 provided their appropriations through the end of the fiscal year (September 30, 1996). This legislation made fiscal year 1996 budget cuts of about \$23 billion in discretionary funding compared with fiscal year 1995 budget levels. Among the programs with substantial budget cuts, in percentage terms, were the Department of Commerce's Economic Development Administration (EDA) programs (20 percent), the Advanced Technology Program (49 percent), Native American programs (8 percent), the summer youth program (28 percent), the Perkins college loan program for disadvantaged students (36 percent), homeless assistance (25 percent), the Legal Services Corporation (31 percent), and the endangered species program (17 percent). These cuts may help reduce the deficit and, therefore, reduce Federal debt-service cost and its associated tax burden. However, the rural people and places that benefit from these programs will be adversely affected. In contrast, some programs received budget increases from this legislation, including Head Start and funding for AIDS. This legislation also provided \$1.4 billion for community policing (up from \$1.3 billion in fiscal year 1995), plus \$0.5 billion for the local law enforcement block grant.

The Federal Agriculture Improvement and Reform Act of 1996, signed on April 4, reauthorized many of USDA's rural programs for fiscal years 1996-2002. In addition to reforming the Nation's farm programs, this legislation reforms most of USDA's rural development programs as part of the Rural Community Action Program (RCAP). RCAP will allow for increased coordination, planning, and capacity building at the State level, and allows for greater flexibility and transferability of program funds within USDA's three primary rural development functions (housing, infrastructure, and business assistance) to make better use of resources and include local participation. RCAP also requires annual strategic plans with performance benchmarks for each State. This legislation also authorized the creation of a Fund for Rural America. The Secretary would have discretion over the new fund, except that one-third must be devoted to rural development, one-third to research, and one-third to either rural development or research. The new Fund is authorized to begin to spend money on January 1, 1997. A total of \$300 million has been appropriated, \$100 million a year for 3 years.

Proposals to reform many other programs, including Education, Commerce, Labor, Environmental Protection Agency (EPA), HUD, and HHS programs, were debated in 1995 and in early 1996, but most of the major reform proposals were not enacted. Congress initially proposed to consolidate many of these programs and hand them over to the States to administer as new Federal block grants. The Clinton administration's plans for reinventing government also called for major program reforms and consolidations, but in most cases they would have retained Federal administration of the programs, as with the new RCAP program. Block grants give States flexibility, within limits, to retarget assistance. Program consolidations, even when not associated with block grants, can have a similar effect. Thus, when major reforms such as block grants and program consolidations occur, it is difficult to anticipate how these might affect local areas and the distribution of funding.

The two block grant proposals that received the most attention in 1995 were welfare reform and health reform. Despite some bipartisan agreement behind major components of welfare reform, such as time limits for welfare recipients and the notion of workfare, disagreements over funding for child care and other issues stood in the way of welfare reform during 1995. However, in August 1996, welfare reform was enacted. In the same month, health insurance reform, which, among other things, requires that insurers offer continuing coverage to workers who change or lose their jobs, was enacted. This legislation, however, did not include provisions to block grant the two large and growing health

programs, Medicaid and Medicare. Like welfare reform, health reform continues to be debated, and its significance for rural areas is underscored in this report.

While attracting less attention from the general public, changes made in Agriculture and Defense programs may significantly affect many rural areas for many years to come. The 1996 farm legislation represents a major overhaul of Federal assistance to farmers, altering the system of income support payments and granting farmers greater planting flexibility. While the possibility that the farm payment safety net may be phased out creates uncertainties for the future, some farming areas should benefit at least in the short term from the act's provisions that allow farmers to continue to receive income payments for several years without the previous reduction associated with expected higher than normal farm prices. The reduction in defense spending in fiscal year 1996, and possible future reductions as reflected in the defense authorization bill, will probably be more important to urban areas than to rural areas. However, these reductions may adversely affect many rural people and places, particularly places with defense base closures.

Many reform proposals in 1995 involved tax cuts or regulatory changes. The flat tax and other major tax reforms have been debated, but no major new tax changes occurred. Rural people and places, though, continue to feel the effect of the significant increase in the earned income tax credit that benefits low-income families and which is being phased in over several years. Most proposed regulatory changes, including the "regulatory flexibility" and "regulatory reform" legislation, proposed changes in product liability rules, legal reforms, and reform of labor safety regulations were not enacted. However, 1995 and early 1996 saw some significant regulatory changes affecting rural credit, the environment and natural resources, electricity and telecommunications, and several other areas. Although we discuss these changes, it is too early to predict the effects of these changes.

The recently enacted welfare reform, health insurance reform, and minimum wage increase will not take effect until fiscal year 1997 and beyond. Consequently, we will cover this legislation in next year's issue of *Rural Conditions and Trends*.

### **This Report Covers 11 Program Categories**

We report on program changes in 11 categories. The first four categories—general development, infrastructure, housing, and business assistance—may be viewed as basic development programs for rural areas. They include USDA's main rural development programs, and key development programs of HUD, Transportation, EPA, the Small Business Administration, the Appalachian Regional Commission, and the Economic Development Administration. Most of these programs include local economic and community development as major program goals. The other seven program categories are important to rural development though they are often not closely associated with rural development. These seven categories include education and training, natural resources and the environment, income support, health, agriculture, defense, and miscellaneous programs (includes social services, trade, and Native American programs). Next comes our coverage of tax and regulatory changes, followed by the appendixes, which describe data sources and definitions and include a table with budgetary information on selected programs. [Rick Reeder, 202-219-0551, [rreeder@econ.ag.gov](mailto:rreeder@econ.ag.gov)]